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HEADLINE: Tax Increment Financing: Spread the Wealth

BYLINE: Rudolph A. Pyatt Jr.

BODY:

In a little-noticed but significant step last summer, Congress finally gave the District authority to use an economic development tool called tax increment financing.

Administered properly, TIF could be ahighly effective for jump-starting and sustaining economic growth in the city. On the other hand, economic development could be hurt if politics and special interests are allowed to shape the focus of TIF.

TIF is generally defined as a program in which government pledges a portion of the anticipated increase in tax revenue from a new development as repayment for bonds used in financing the project.

The program would enable a developer in the District, for example, to meet the city's goal of building more housing units and retail space in downtown Washington. Developers have maintained for years that the cost of building housing downtown would be prohibitive. Thus they have opted to develop more office buildings, assuring themselves of realizing a higher profit margin.

But now that it has the authority, the city could issue TIF bonds to help develop a project with a mix of office, retail and housing, for example. The city would then pledge the anticipated increases in property and sales taxes generated by the project as repayment of the bonds.

Municipalities and counties have used TIF for years as a means of promoting revitalization or to finance improvements to infrastructure. Used effectively, TIF could help stimulate development and increase job growth substantially in all areas of the District.

Already, however, special interests have launched a preemptive strike by drafting legislation that would create a special tax increment finance commission exclusively for downtown Washington.

The commission, among other things, would be empowered to issue bonds; acquire interests in personal property; sell personal property, with or without consideration of the fair market value or acquisition cost; and deposit and invest funds under its control.

Bad idea.

Indeed, D.C. Council member Frank Smith (D-Ward 1), sponsor of the so-called Tax Increment Finance Commission Act of 1997, has misgivings about some of the proposed legislation's provisions. Smith says he plans to make several changes in the measure before holding hearings.

Although he supports the general concept of TIF, Smith made it clear in an interview last week that he isn't happy with the proposal calling for a commission. "Neither one of us is happy with the concept of a commission," he said, referring to council member Charlene Drew Jarvis (D-Ward 4).

Jarvis, who chairs the council's Committee on Economic Development, introduced legislation last week that would create a new economic development entity for the District called the National Capital Revitalization Corp. The details are yet to be worked out, but the corporation, among other things, would be given authority to issue TIF bonds to help finance private projects and infrastructure improvements.

The difference between Smith's bill and her proposal, Jarvis explained, is that hers would create a corporation with "broad powers to do strategic planning and provide [development] incentives with a citywide focus."

"We're working together" on a compromise, said Smith, who is chairman of the Committee on Finance and Revenue. "That [TIF] commission will go because I don't think it's a good idea. And the idea of having it involved only with downtown is not a good one. There are worthy projects in other parts of the city."

This is by no means a case of Smith suddenly getting cold feet amid a growing controversy over the proposed commission that has the backing of business leaders. Smith made it clear in introducing the bill last month that he had some reservations about some parts of a draft prepared by developers and other members of the business community.

"As a ward representative, I think it is inadequate that the bill only applies to downtown because I am aware of places in my ward and in other parts of the city that could benefit from tax increment financing. Therefore, a citywide application of the tax increment financing and a refinement of some of the powers granted to the commission would be my advocacy as we present this bill for public hearing," Smith said.

In Prince George's County, where tax increment financing was first used in the early 1980s, officials noted later that the program can have some disadvantages. According to a National League of Cities study devoted to the financing of infrastructure, officials in Prince George's County cautioned that there may be a public perception that TIF districts get public improvements that other areas of a community don't receive.

The study further showed that developers in a TIF district may feel that funds generated from new projects are "their" money.

"We are sensitive to what the development community wants," Jarvis said. "We'll do what the development community wants if a developer comes in with a proposal in an amount that has some relation to housing and retail."

Clearly the authority to issue TIF bonds greatly enhances the outlook for continued revitalization downtown. Nonetheless, the idea of creating a special TIF commission expressly for downtown smacks of elitism. It further indicates a reluctance on the part of developers to have the council and the city's chief financial officer maintain oversight over TIF activity in the downtown area. There can be no alternative as long as government officials are accountable for tax revenue.

The advice to Smith and Jarvis and the eight cosponsors of her bill is to stay the course and not give in to special interests. The best hope for achieving broad economic growth is to develop a comprehensive strategy that provides for TIF districts in all areas of the city.